

Merchant Cards 101

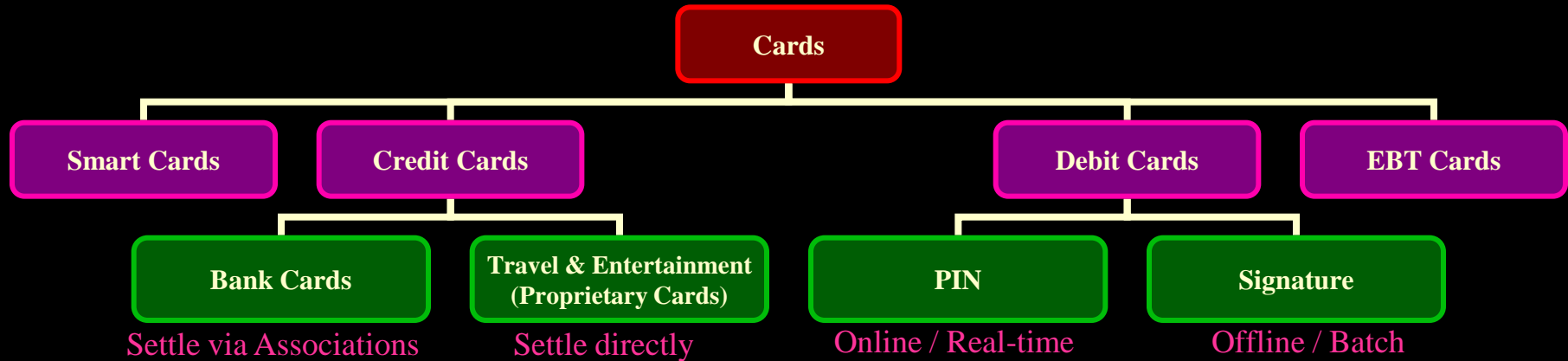


Office of the State Controller



July 2010

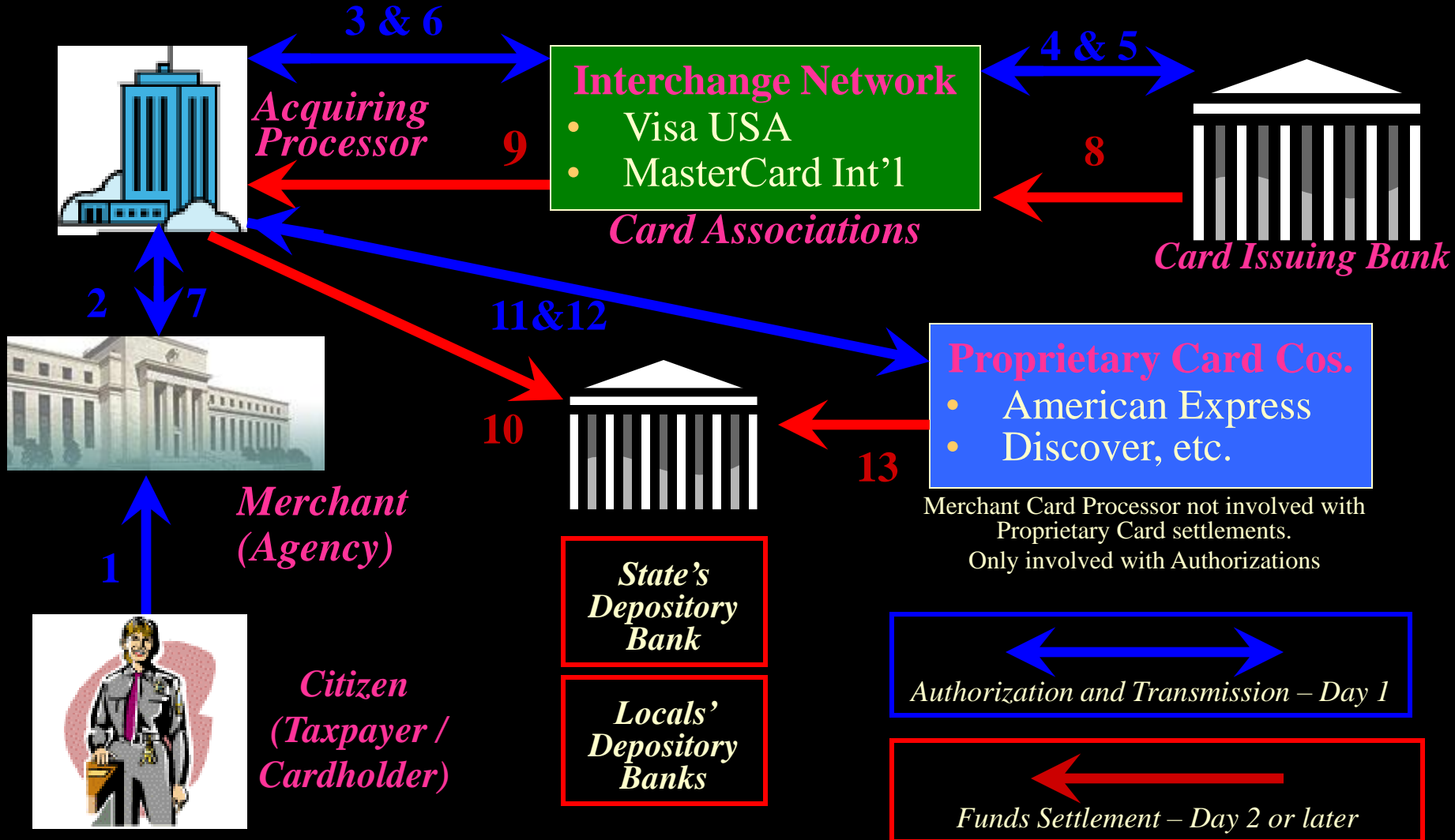
Types of Cards



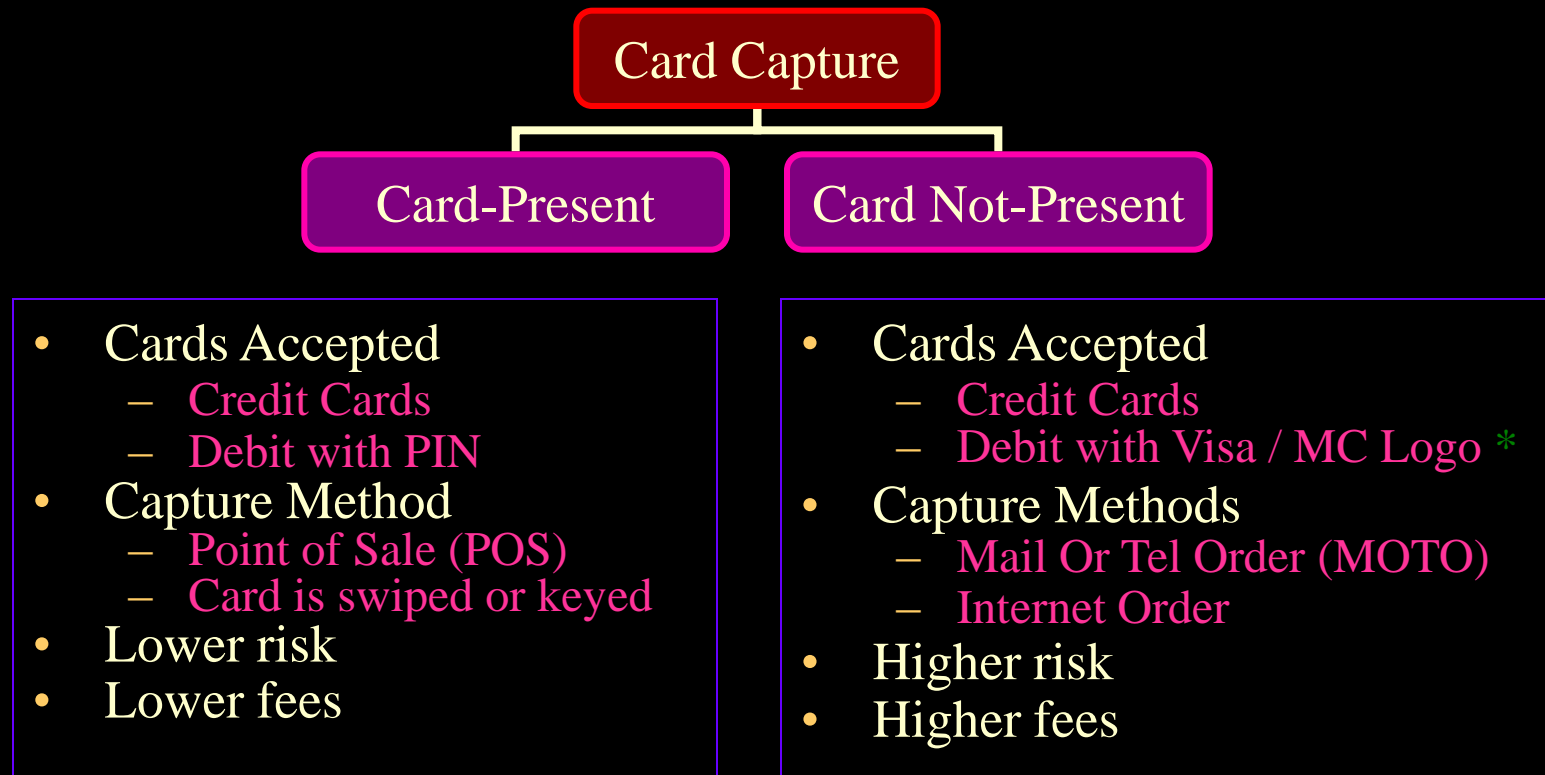
- Credit Cards (Pay later)
 - Bank Cards – e.g., Visa and MasterCard
 - T&E Cards (Proprietary Cards) – e.g. Discover, Diners Club, Amex
- Debit Cards – (Pay now – Against checking acct)
- Smart Cards – (Prepay) Stored Value – Embedded Chip
- EBT Card – (Electronic Benefits Transfer) (Gov.-Issued debit card)
 - Food Stamps (Funded directly by USDA)
 - Cash Benefits (Not utilized in NC)



Merchant Card Players

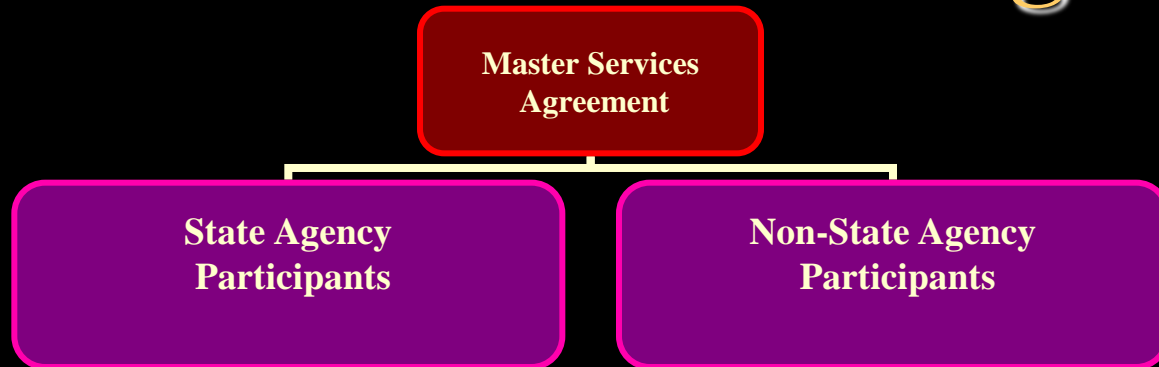


Types of Capture



* PIN-less debit cards without logo are allowed for governments - for Card Not-Present. Generally require a signature.

State's Credit Card Program



- OSC has a **Master Services Agreement (MSA)** with SunTrust Merchant Services, LLC (STMS) – Contract dated August 1, 2006
- Participants can utilize the MSA by executing an **Agency Participant Agreement (APA)**
- STMS is partially-owned subsidiary of **First Data Merchant Services**
- **State Agencies** (including universities) **required** to participate in MSA unless business case is provided.
- **Non-State agencies** can participate on a **voluntary** basis
 - Local units of governments.
 - Community Colleges, LEAs, and Clerks of Court are considered non-State agencies because of the local bank relationships.
- FY 2009-10
 - **9 million transactions, totaling \$784 million**
 - **96 participants – 1,000+ merchant numbers**

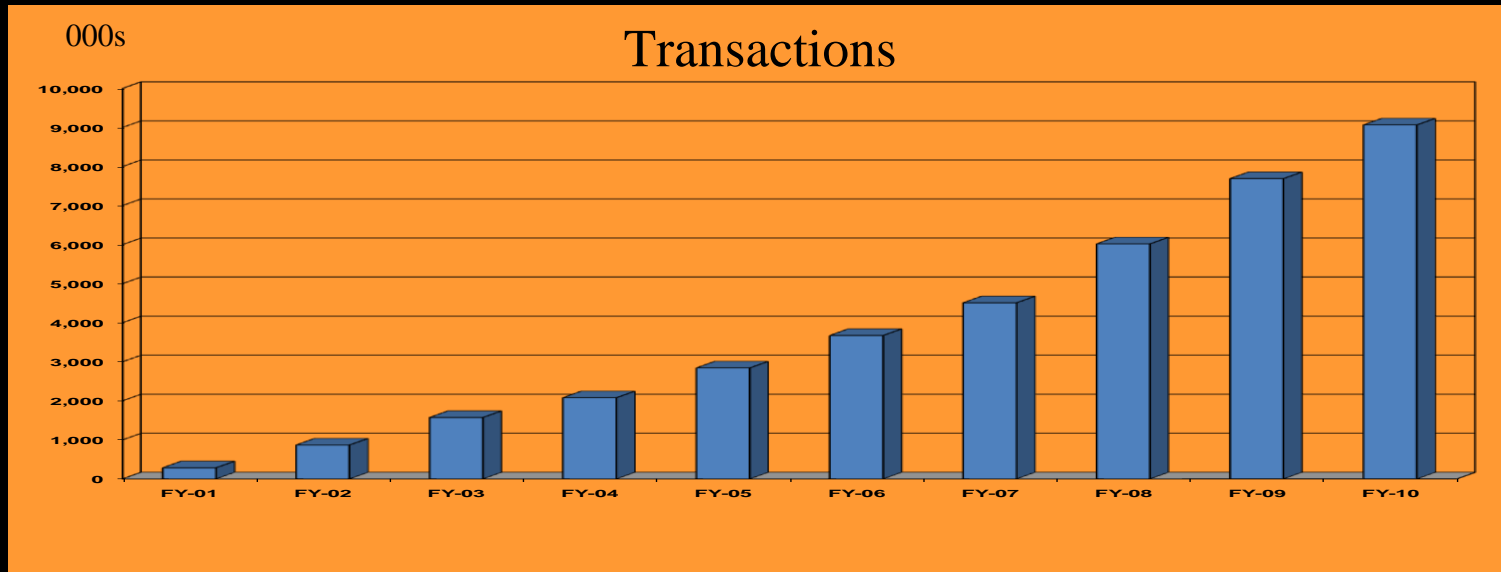
Participating Agency Agreement

Master Services Agreement (MSA)

Agency Participation Agreement (APA)

- APA allows an eligible entity to participate in OSC's MSA with STMS
- Required execution of APA before enrolling, along with being compliant with the PCI Data Security Standard (PCI DSS)
- Bounds entity to the terms of the MSA – Multiple components of MSA
 - Request for BAFO solicitation document dated July 10, 2006
 - Merchant Services Bankcard Agreement – With Schedules
 - Schedule A – Modified Scope of Services
 - Schedule B – Schedule of Fees
 - Schedule C – Visa and MasterCard's Interchange Qualification Data Requirements
 - Schedule D – Service Level Agreement
 - Schedule E – Agency Participation Agreement
 - STMS's Operating Procedures ("Operating Guide")
- Discloses a Participant's liabilities and obligations
 - To adhere to all card association rules
 - Be liable for any PCI violations or non-compliance, including fines

Historical Card Data



#Transactions

FY-01	285,000
FY-02	868,000
FY-03	1,573,000
FY-04	2,078,000
FY-05	2,842,000
FY-06	3,673,000
FY-07	4,509,000
FY-08	6,018,000
FY-09	7,689,000
FY-10	9,064,000

Dollar Amt (Million)

Avg. Ticket

FY-01	\$ 22.8	\$ 80
FY-02	\$ 76.7	\$ 88
FY-03	\$ 182.6	\$116
FY-04	\$ 233.7	\$112
FY-05	\$ 311.4	\$110
FY-06	\$ 435.7	\$119
FY-07	\$ 534.8	\$118
FY-08	\$ 646.3	\$107
FY-09	\$ 703.0	\$ 91
FY-10	\$ 783.8	\$ 86

Card Activity by Agency Category

•Based on 2008 E-Commerce Study (FY 2006-07)

	<u>Trans. Vol.</u>	<u>Sales Vol.</u>	<u>Pass-Thru Fees</u>	<u>Vendor Fees</u>	<u>Total Fees</u>
General Govt	1,967 M	\$ 107,541 M	\$ 1,895 M	\$ 140 M	\$ 2,036 M
Universities	1,797 M	\$ 349,237 M	\$ 5,634 M	\$ 168 M	\$ 5,802 M
Com. Colleges	161 M	\$ 19,910 M	\$ 283 M	\$ 19 M	\$ 302 M
Local Units	583 M	\$ 58,006 M	\$ 986 M	\$ 47 M	\$ 1,033 M
LEAs	<u>1 M</u>	<u>\$ 113 M</u>	<u>\$ 2 M</u>	<u>\$ 0 M</u>	<u>\$ 2 M</u>
Total	4,509 M	\$ 534,807 M	\$ 8,801 M	\$ 374 M	\$ 9,175 M

Transaction volume doubled from FY-2007 to FY 2010 (9 million)

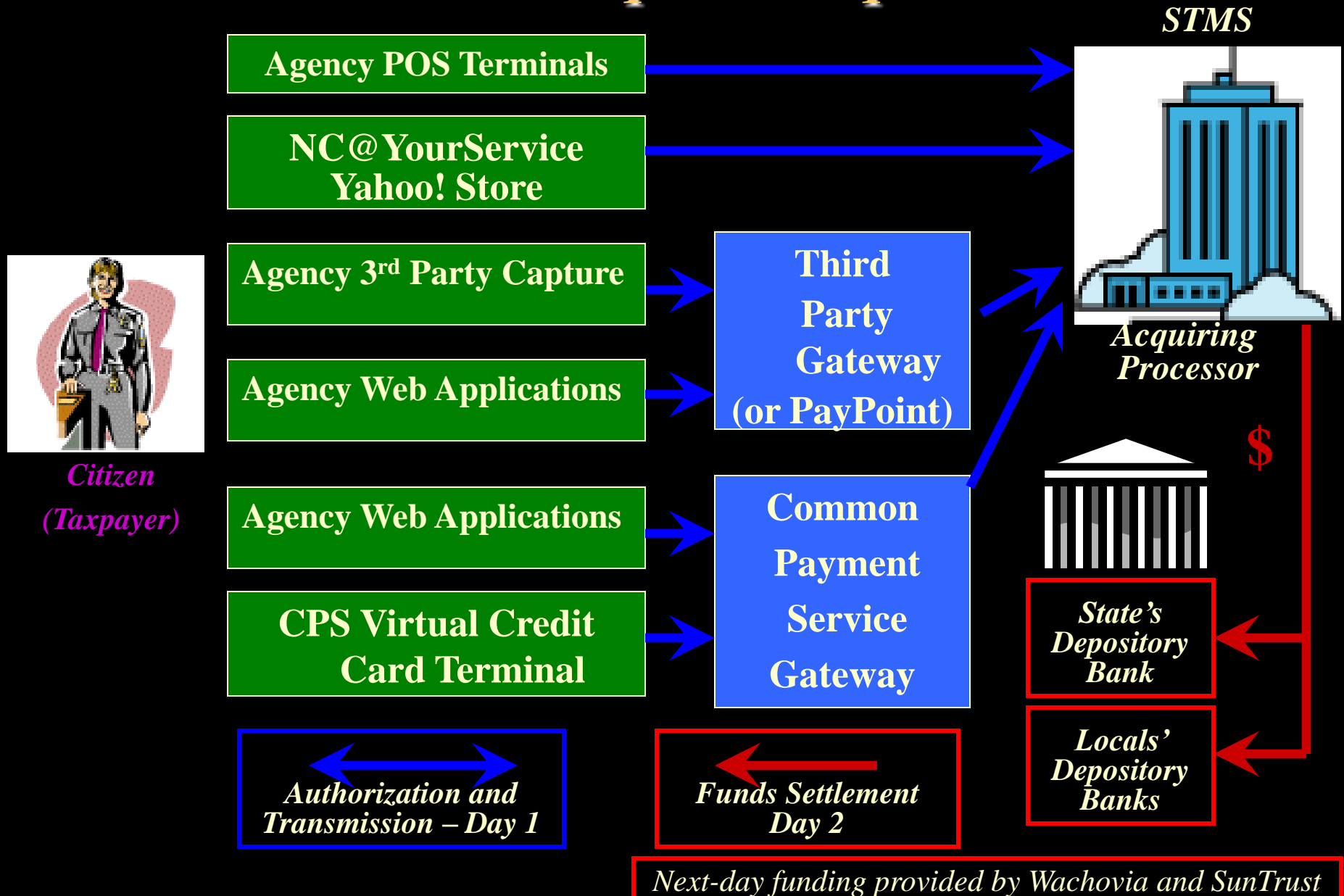
DMV Vehicle Registration largest volume

- 1.5 million transaction in FY-2010
- \$ 50 million in FY-2010 / Avg. Ticket \$32

Two Types of Fees

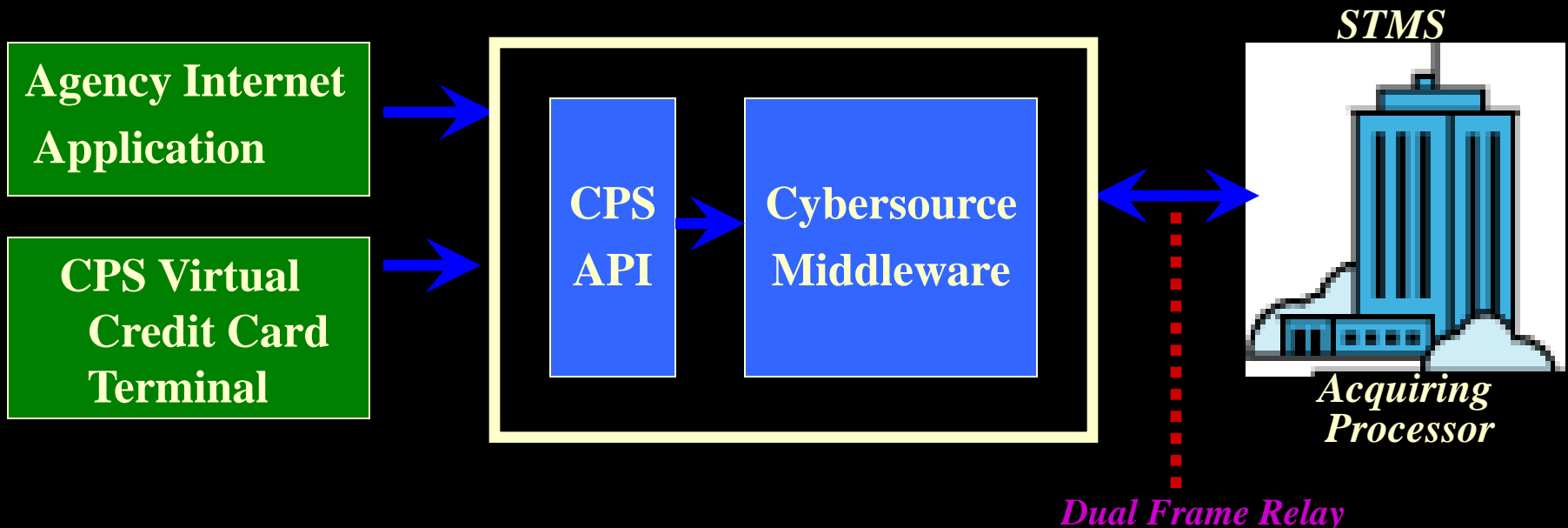
- Pass-thru fees are paid to Visa/MC
- Vendor Fees are paid to STMS

State's Capture Options



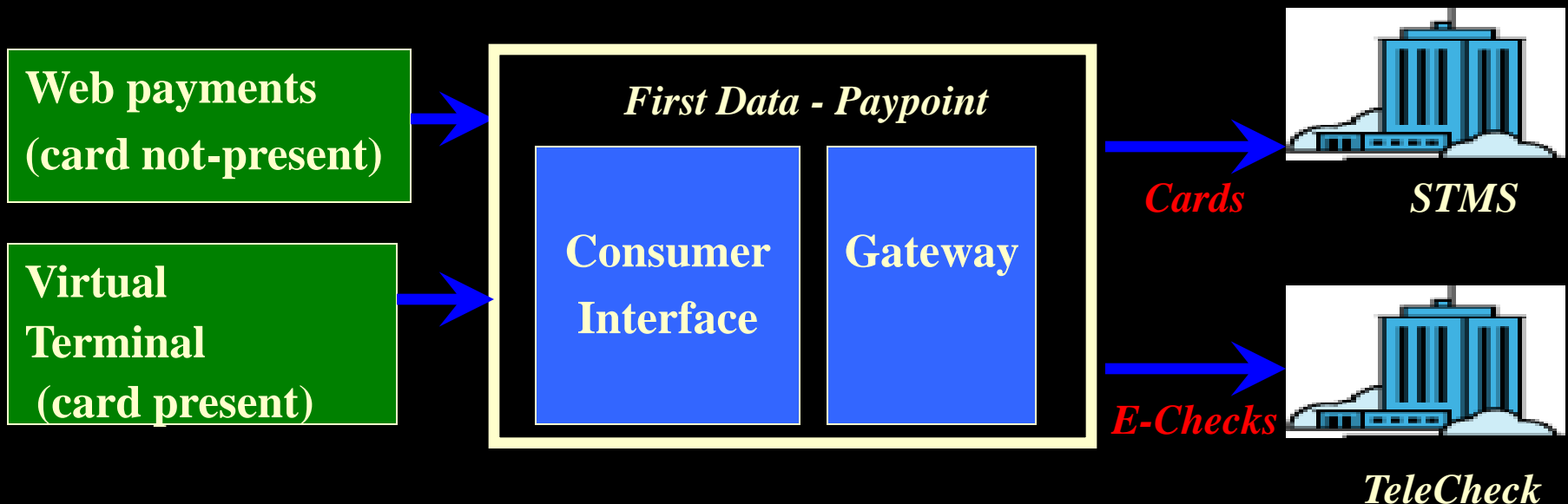
Common Payment Service

- Gateway Service available to participants of the MSA
- Provided by Office of Information Technology Services (ITS)
- For participants:
 - Having an internet application requiring a gateway to the processor
 - Desiring a virtual terminal for capturing card not-present transactions (MOTO)
- Fees - **\$.28** per authorization (Effective July 1, 2010)
- Fees billed to agency in monthly ITS invoice
- Currently **9 Participants** – Representing **27%** of transaction volume



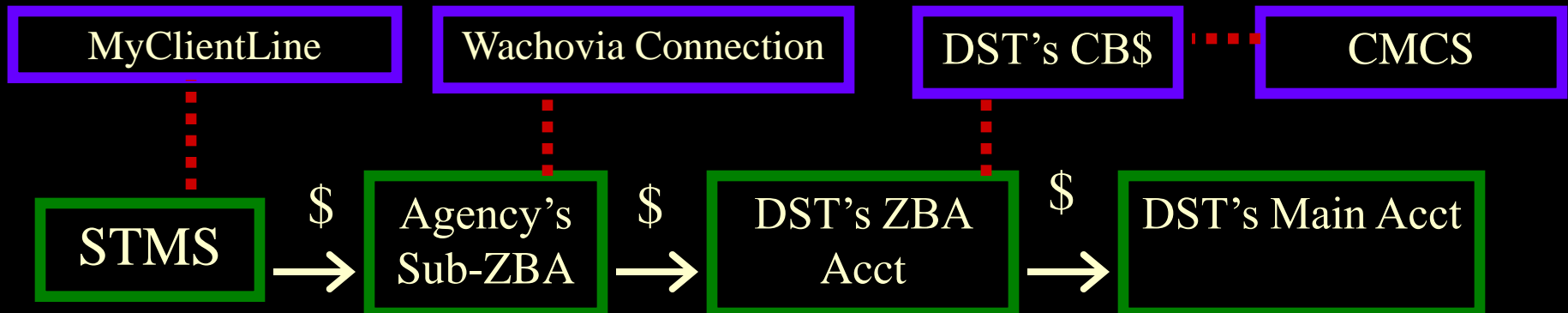
PayPoint Capture Solution

- Optional gateway solution offered via First Data
- For participants:
 - Having an need an off-the-shelf internet solution (Consumer Interface)
 - Desiring to accept both card and E-checks (bank drafts)
 - Having outstanding invoices for payers to pay online
 - Can be used as a virtual terminal for in-house keyed transactions
- Fees : \$.30 - \$.35 per authorization ; \$1,000 Initial Setup Fee
- Fees billed to agency by First Data



Depository Bank Account

- For **State agency participants**, Wachovia Bank has been designated by State Treasurer for settlement of funds
- Funds provided by STMS **one** banking day after card transaction
- Sub-Zero Balance Account (ZBA) opened for each State agency participant
- Funds are swept from Sub-ZBA to State Treasurer's Statewide ZBA at Wachovia account at end of day, which agency certifies on CMCS
- Wachovia Bank fees paid by DST, not agency
- Agencies access four systems to report and reconcile transactions
 - **MyClientLine** – To view card activity (Provided by FDMS)
 - **Wachovia Connection** – To view ZBA account activity
 - **CMCS** – To report deposits (Provided by OSC)
 - **Core Banking System** – To view CIT bank deposit and CMCS certification



Bank Settlement Account Structure

SunTrust Merchant Services



*Acquiring Processor
or Proprietary Card Co.*

*MyClientLine
Online
Reporting Tool*



Merchant / Participant

Local's Depository Bank

Local's Main Account

**Daily ACH
Settlements
(One per Merchant #)**

*Wachovia Connection
Online
Reporting Tool*

Wachovia



State's Depository Bank

DST's Main Account

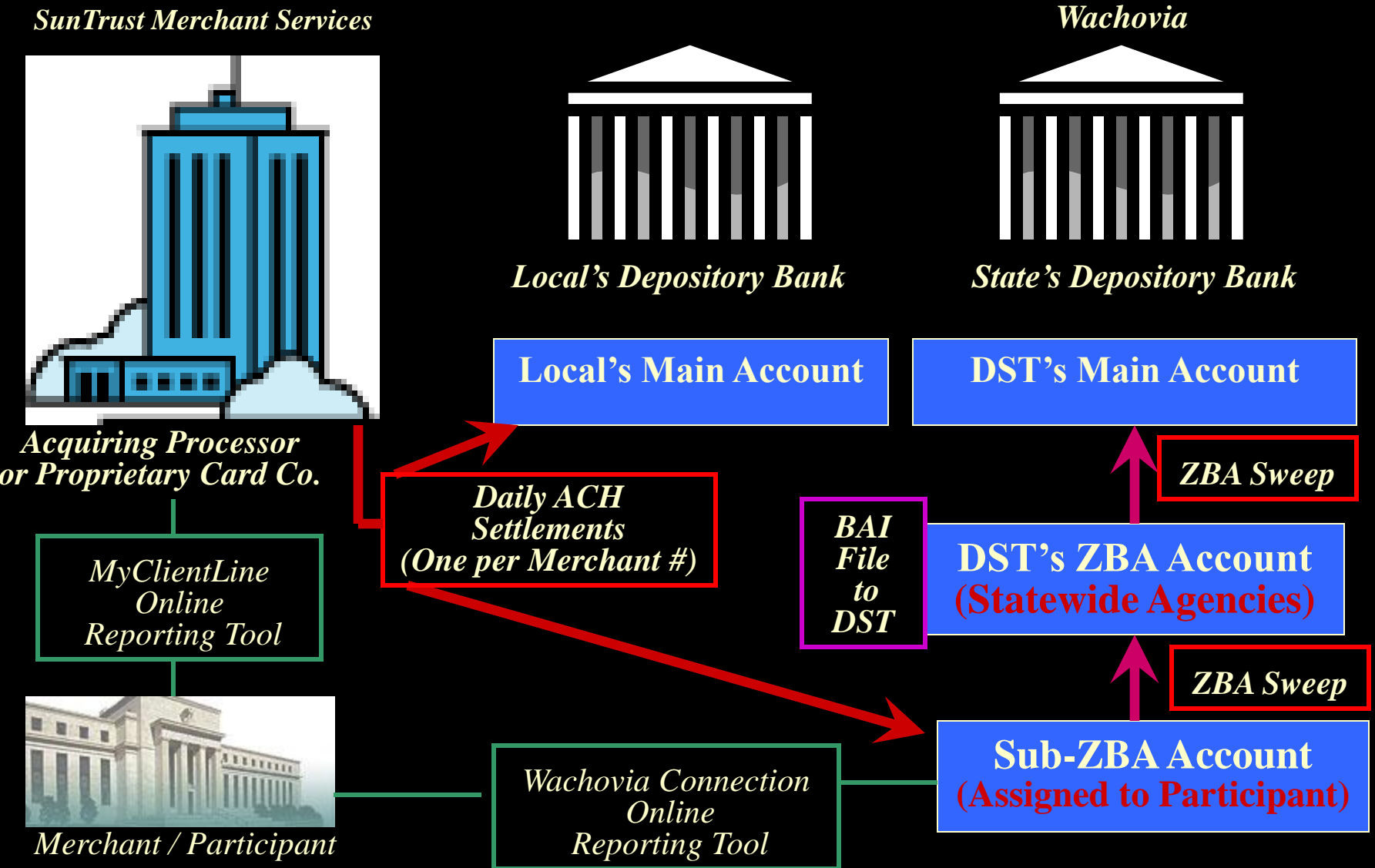
ZBA Sweep

**BAI
File
to
DST**

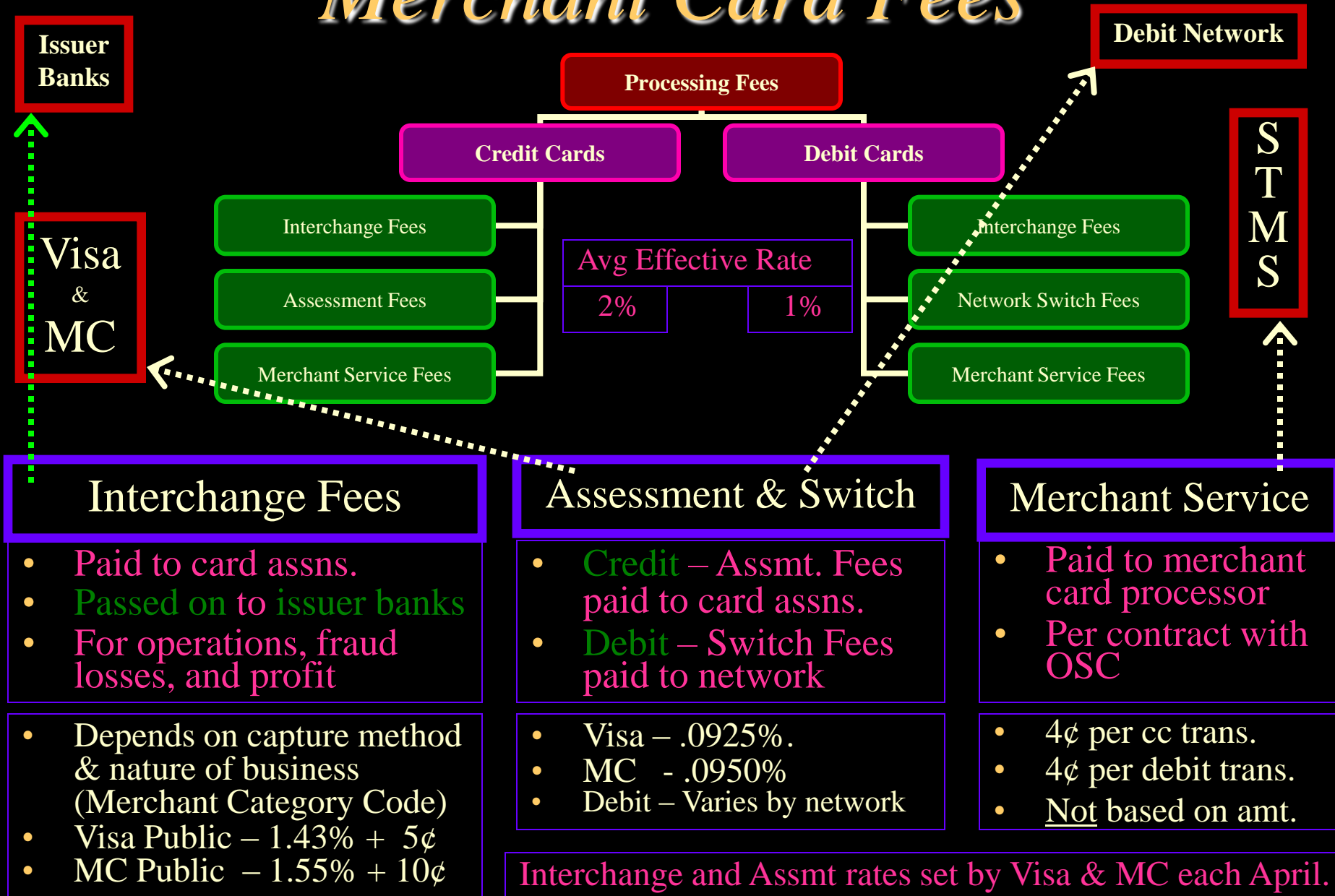
**DST's ZBA Account
(Statewide Agencies)**

ZBA Sweep

**Sub-ZBA Account
(Assigned to Participant)**



Merchant Card Fees



Typical Processing Fees

Based on best available rates for Merchant Category Code (MCC)

Credit Card	Visa		MasterCard	
MCC	Emerging Market		Public Sector	
	Fee	Amt	Fee	Amt
Transaction		\$100.00		\$100.00
Interchange-%	1.43%	1.43	1.55%	1.55
Interchange-\$	\$.05	.05	\$.10	.10
Assessment-%	.11%	.11	.11%	.11
Access Fee-\$	\$.022	.02	\$.021	.02
STMS-\$	\$.04	.04	\$.04	.04
Total Fee		\$ 1.65		\$ 1.82

- Pass-through Fees = Interchange (% and \$) and Assessments (%)
- Vendor-Levied = STMS “per transaction” fee

Other Fees

- **Equipment and supplies** (POS terminals, capture software, etc)
 - Terminals can be purchased or rented
 - Obtained either from SunTrust Merchant Services or vendor of choice
- **Common Payment Service Fees**
 - If authorization is via CPS as gateway
 - Fee of \$.28 per authorization, return, or void (Reduction July 2010 from \$.35)
 - Included in agency's monthly ITS invoice
- **Third-party capture solution Fees**
 - If authorization is via gateway other than CPS
 - Examples – PayPoint, Touchnet, PayPal
 - Negotiated between agency and the third-party
 - PayPoint Fees: \$1,000 start-up and \$.30 – \$.35 per transaction
- **NC@YourService Fees**
 - If Yahoo! Storefront is used as capture solution (gateway)
 - Monthly hosting fee \$39.95 for Starter Plan
 - Transaction fees - 1.5%
 - Startup fee - \$50
 - Yahoo processes transactions through SunTrust Merchant Services (additional interchange fees apply)

Electronic Access Fees

Also commonly referred to as **Convenience Fees**

- **HB 1854 2000 session (G.S. 66-58.12)**
 - Allows for recouping of fees initiated electronically (Via Internet)
 - Must be pre-approved by ITS CIO and Office of State Budget & Mgt.
 - Flat or percentage – per transaction (See Rules caution below)
 - Fee collected must be credited to a non-reverting agency reserve budget code, only for use for e-commerce initiative and projects
 - Accounts Receivable Law (G.S. 147-86.22) also applies
- **Examples**
 - DMV Tag Registration – No fee charged
 - Wildlife Hunting and Vessel Licenses – No fee charged
 - DOT Insurance penalties – Fixed - \$1.50
 - Child Support Payments – Fixed - \$5
 - Secretary of State – Fixed - \$2.00
 - Universities using TouchNet – Percentage of 2.75%
- **Rules Caution**
 - While G.S. 66.58-12 indicates fee “may” be percentage-based, Visa Rules only allows a “fixed” fee. MasterCard may be fixed or percentage
 - Visa rules require the fee to be levied against all alternative payment channels (e.g., ACH debits)
 - MSA requires all participants to adhere to all card associations rules
 - Violations could result in fines and/or termination of services

PCI Data Security Standard (PCI DSS)

- PCI = **Payment Card Industry**
- Requirements of card brands (Visa, MasterCard, Amex, Discover)
- Administered by **PCI Security Council**
- Safeguarding of merchant card holder information – 12 major components
- Merchants not in compliance subject to fines
- Two primary requirements to validate compliance
 - **Annual Self-Assessment Questionnaire (SAQ) – For everyone**
 - **Quarterly Security Scans – For externally facing IP Addresses**
- OSC has contracted with Trustwave to assist participants in becoming compliant- a major advantage for using OSC's Master Services Agreement
- All participants are required to enroll in Trustwave's TrustKeeper Portal to validate their compliance with the PCI DSS.
- PCI DSS Compliance is a pre-requisite for participating in MSA
- Common Payment Service (CPS) is a certified service provider (gateway) – a major advantage for using CPS
- Third-party gateways must be compliant as a “service provider”

Regulator Governance For Merchant Cards

- Debit Cards
 - Regulation E applies (Does not apply to credit cards)
 - Pursuant to **Electronic Funds Transfer Act** (EFTA)
 - Cardholder loss limited to **\$50** if reported with 48 hours, and then \$500
 - EBT cards are exempt from Reg E
- Credit Cards
 - Regulation Z applies
 - Pursuant to **Truth in Lending Act** (TILA)
 - Cardholder liability generally limited to **\$50** if lost or stolen
- Chargebacks
 - Debit Cards – Funds must be in bank account
 - Credit Cards – Can occur up to 60 – 90 days
 - Required retention of sales receipts at least 18 months

Credit Card Milestones

- 1920 – Proprietary charge cards (Oil companies - “courtesy cards”)
- 1950 – Travel and Entertainment (T&E) Card – Dinners Club Card
- 1966 – Credit cards with revolving credit – BankAmericard being the first
- 1980s – Debit cards and ATM cards
- 1980s – NC Wildlife Resources Commission was first State agency to accept credit cards, with fees paid from non-State funds
- 1990s – Universities began accepting cards, with fees paid from institutional trust funds (non-State funds)
- 1995 – OSC revised State Cash Management Plan to authorize credit card acceptance by State agencies if approved by OSC.
- 1999 – SB 222 enacted, giving OSC responsibility for EFT (including cards)
- 2000 – OSC entered in a Master Services Agreement with STMS
- 2000 – State Fair tickets could be purchased online using credit cards
- 2000 – DMV drivers license could be renewed online using credit cards
- 2005 – OSC initiated expansion of Electronic Commerce Program
- 2006 – OSC re-selected STMS as vendor through RFP process
- 2007 – American Express Card Master Agreement offered to agencies
- 2008 – Discover Network Card Master Agreement offered to agencies
- 2009 – PayPoint secured as a web-based capture solution

More Information

Office of the State Controller Website

www.osc.nc.gov

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